VII. Performance Measures

The techniques that an organization uses to measure its performance go to the heart of what the organization really values. In the IRS, as elsewhere, what the organization values is communicated through a variety of means, both explicit and implicit, including what behavior is rewarded, ignored or punished. Quantitative measures, being apparently precise and objective, are an extremely powerful device with great influence on behavior.

For many years, the IRS used statistics and measurements at all levels as part of its management process. A real strength of the organization is that people are used to dealing with hard data as an indicator of how things are working or not working, and they respond to and manage using this information.

For many years, enforcement statistics, especially enforcement revenue, were a key issue in measuring performance at the IRS. Enforcement statistics are counts of actions taken, such as number of levies or seizures, and enforcement revenues are counts of revenue gained from enforcement activities, such as audits or collection actions. Although the revenue that is actually collected (98 percent of which comes in voluntarily and 2 percent of which comes in through enforcement) is measurable on a fairly current basis, the total amount owed that is not collected is less easily measured and, in fact, has not been measured since 1988. In addition, enforcement action has been shown to have a deterrent effect that induces additional revenue from taxpayers other than those directly affected.

For these reasons, enforcement revenue has been a key measure of success at the IRS. Enforcement revenues have been used to justify the overall budget and have been a very important internal measure of performance. The chart below shows a one-page excerpt of the President's Budget for the IRS for fiscal year 1997. As highlighted, there are four references to enforcement revenues on this one page, three of them measuring a particular category of enforcement revenue per FTE (or per full-time employee).

Excerpts from President's Budget

Internal Revenue Service

Service-wide Performance Measures

	1996 Actual	1997 Est.	1998 Est.
Objective Measures:			
Increase Compliance			
Total Collection Percentage (TCP)	86	86.7	87.3
Total Net Revenue Collected	$1.38T	$1.47T	$1.57T
Service-wide Enforcement Revenue Collected	**$38B**	**$34.7B**	**$35.2B**
Performance Measures By Budget Activity			
Telephone and Correspondence:			
Number of Calls Answered (in millions)	99.1	111.4	111.4
Telephone Level of Access	46%	60.2%	60.2%
Telephone Tax Law Accuracy Rate	91.6%	92%	92%
Automated Collection System (ACS) Dollars Collected per FTE	**N/A**	**1.4M**	**1.4M**
Tax Law Enforcement Performance Measures By Budget Activity			
Examination:			
Field Examination Dollars Recommended (in billions)	26.0	22.83	22.83
Field Examination Dollars Recommended per FTE	**1,089,661**	**1,008,348**	**1,008,348**
Appeals Non-Docketed Cycle Time (days)	234	238	238
Appeals Staff Days per Disposal	2.14	2.14	2.14
Collection:			
Field Collection Dollars Collected (in billions)	5.63	4.87	4.92
Field Collection Dollars Collected per FTE	**486,000**	**462,000**	**476,000**

Recapped in the regulation on balanced measures on Sept 15, 1999

The importance of enforcement revenue as a measure of IRS performance created a dilemma and a controversy that persisted for years. The dilemma was created by the fact that each specific enforcement action must be guided by law as applied to the specific facts and circumstances of the case and, therefore, it has long been considered inappropriate to give "quotas" or quantitative enforcement goals to an individual enforcement officer. For example, in 1959, in the wake of hearings by the House Ways and Means Committee, the IRS issued a policy statement that said:

> *If the duties of the position require the exercise of judgment based on detailed knowledge of laws and regulations or involve material factors of technical or professional judgment, performance must be evaluated in the light of the actual cases or other assignments handled, and no quantitative measurement may be utilized which does not take such differences into account. Dollar production shall not be used as the measurement of any individual's performance.*

For the ensuing 40 years, this dilemma persisted, a history that is recapped in the regulation on balanced measurement, issued in final form on September 7, 1999. (A copy of the regulation is attached as Appendix 2.)

In the 1990s, an attempt was made to increase the emphasis on enforcement revenue by establishing a quantitative performance index to rank the performance of the IRS district offices, an index in which enforcement statistics comprised about 70 percent of the weight of the index. This index was a very important factor in evaluating the performance of the district management. However, by law and regulation, these same measurements were not supposed to be used to evaluate front-line employees. As is now known, this approach resulted in a misalignment of measures for managers and employees, in turn causing a range of serious problems including widespread violations of the regulations on use of statistics.

Establishing a balanced measurement system

Despite this difficult history, it is essential to establish appropriate quantitative performance measures for the IRS and its major component operations. This is required by the Government Performance and Results Act and is essential to the proper operation of any large organization. For this reason, an integral part of the overall IRS modernization program is the establishment of balanced performance measures that support and reinforce achievement for the IRS' restated mission and overall strategic goals.

A critical aspect of establishing an appropriate balanced measurement system is establishing the measurements based on what we need and want to measure in order to achieve our strategic goals and mission, rather than simply what is most easily measured. This balanced measurement system must define quantities that are relevant to each of the strategic goals and that indicate, in total, progress on all three goals. As in most good organizations, the process of measurement can be constantly refined, but the concept of what is being measured remains stable.

Also critical to the measurement system is following the guiding principle that measures must be aligned at all levels, from the top to the front-line employee. This creates a commonality of interest and binds the organization around a common goal, rather than creating conflict and mistrust at different levels. This principle does not mean that all levels and all components of the organization have precisely the same measurements, which would obviously be impossible. Rather, it means that the measures or evaluations are aimed at encouraging the type of behavior that will advance the organization's overall strategic goals, and do not encourage inappropriate behavior.

In developing measures for each organizational level, it is important that each component of the balanced measurement system reflect responsibility at that organizational level. At the top of the organization, management has control over strategies and allocation of resources. At the mid-levels, managers have less control over these variables but do have control over the effectiveness of training, coaching and guidance of

Measuring Performance at the IRS

MEASURES THAT MEASURE WHAT WE REALLY WANT.
BALANCED MEASURES DERIVED FROM THREE CORPORATE GOALS.
MEASURES ALIGNED AT ALL ORGANIZATIONAL LEVELS.

GOALS	STRATEGIC MANAGEMENT LEVEL	OPERATIONAL MANAGEMENT	FRONT-LINE EMPLOYEES
Service to Each Taxpayer • Make filing easier • Provide first-quality service to each taxpayer needing help with his or her return or account • Provide prompt, professional, helpful treatment to taxpayers in cases where additional taxes may be due	• Overall customer satisfaction with service/treatment • Customer dissatisfaction (complaints) • Customer satisfaction compared to other organizations	• Satisfaction with particular service • Dissatisfaction with particular service	• Service to taxpayers and treatment of taxpayers incorporated in critical elements
Service to All Taxpayers • Increase fairness of compliance • Increase overall compliance	• Overall compliance percentage • Increase in compliance • Uniformity of compliance • Allocation of compliance resources - dollars vs. resources	• Quality of particular cases/events (EQMS/CQMS) • Quantity of particular cases/events	• Case quality and time management incorporated in critical elements
Productivity Through a Quality Work Environment • Increase employee job satisfaction • Hold agency employment stable while economy grows and service improves	• Overall employee satisfaction with working environment • Overall workload vs. size of workforce	• Employee satisfaction with particular working environment	• Now: None • Future: Teamwork contributes to improving work environment (TQO)

employees. At the individual level, each employee has control over his or her own individual work and self-development.

An overview of the balanced measures system being implemented at the IRS is shown above. As seen in the matrix, there will be quantitative measurements keyed to each of the three strategic goals at both the strategic level and the operational level. In general, quantitative measures will not be used at the individual employee level.

In September 1999, a Balanced Measures Regulation was issued to formally establish the IRS' new performance management system. The issuance, which followed a public comment period, set forth the structure for measuring organizational and employee performance within the IRS. A copy of the regulation is available in Appendix 2.

Measuring at the strategic level

The strategic level is designed to measure overall performance for delivering on the overall mission and three strategic goals. This level is only meaningful for the organization as a whole or for an organizational component that is responsible for full service to a large set of taxpayers. In today's organization structure, strategic measures would only be meaningful for the agency as a whole. (A district, for example, is too small and heterogeneous to have a meaningful measure of overall compliance and does not have responsibility for the activities in the service centers in its district.) In the future organization structure, these strategic measures will be applicable for each of the four major operating divisions.

In the future, it will also be essential for the IRS to develop regular and meaningful measures of overall compliance. This is important not only for effective management but also for fundamental fairness, to assure taxpayers who pay their taxes that others are also complying. In the absence of such measures, informed decisions on strategies to encourage voluntary compliance, such as those discussed in the earlier section of this paper, Business Practices and Strategies, will be impossible, and the historic tendency to fall back on enforcement revenue as a measure of performance may reoccur.

In the balanced measurement system we are implementing, enforcement revenues are not a measure of performance at either the strategic or operational level. The sole use of enforcement revenue at the strategic level is to measure the effectiveness of case selection for compliance activities. However, overall revenue as compared with expected revenue is a valid strategic measure.

Measuring at the operational level

The operational management level focuses on the effective execution of particular aspects of the organization. Today, these activities are mainly carried out by the “functions,” such as Customer Service, field Collection and field Examination. A large percentage of employees work in these important components of the organization, and it is critical to develop appropriate measures of performance for them.

At this level, the balanced measures of organizational performance are derived as follows:

Service to Each Taxpayer / Customer Satisfaction

The "service to each taxpayer”goal is measured from the customer's point of view. The goal of the Customer Satisfaction element is to provide accurate and professional services to internal and external customers in a courteous, timely manner. The customer satisfaction goals and accomplishments of operating units within the IRS are determined on the basis of customer feedback collected via methods such as questionnaires, surveys and other types of information gathering mechanisms. Information to measure customer satisfaction for a particular work unit is gathered from a sample of the customers served. Customers are permitted to provide information requested for these purposes anonymously. Customers may include individual taxpayers, organizational units or employees within the IRS and external groups affected by the services performed by the IRS operating unit.

Service to All Taxpayers / Business Results

The "service to all taxpayers" goal is gauged through a combination of quality, quantity and outreach measures. The goal of the Business Results elements is to generate a productive quantity of work in a quality manner and to provide meaningful outreach to all customers. The business results measures consist of numerical scores determined under the elements of quality and quantity.

- The quantity measures, which are to be used in conjunction with the quality, customer satisfaction, and employee satisfaction measures, provide information about the volume and mix of work products and services produced by IRS operating units and consist of outcome-neutral production and resource data. Examples include the number of cases closed, work items completed, customer education, assistance and outreach efforts undertaken, hours expended and similar inventory, workload and staffing information.

- The quality measures provide information about how well IRS operating units developed and delivered their products and services. The quality measures are determined based upon a comparison of a sample of work items handled by certain functions or organizational units against a prescribed set of standards that incorporate the customers' point of view. Additional quality measures will gauge the accuracy and timeliness of the products and services provided.

Productivity Through a Quality Work Environment / Employee Satisfaction

The "productivity through a quality work environment" goal is assessed via measures of employee satisfaction. The goal of the Employee Satisfaction element is to create an enabling work environment for employees by providing quality leadership, adequate training and effective support services. The employee satisfaction ratings to be given within the IRS are determined on the basis of information gathered via survey. All employees have an opportunity to provide information regarding employee satisfaction under conditions that guarantee them anonymity.

Measuring at the individual level

All quantitative measurements are assessments of organizational performance, not of individual employees. This is always true because it is impossible to capture in any quantitative measurement system all that is important in evaluating an individual. For managers responsible for an organizational component, the quantitative measurements of the balanced measurement system are one of the factors that should influence a performance appraisal.

For front-line employees, quantitative measurements are not used to evaluate performance, except in certain submissions processing functions. This is because, in most cases, it is not practical to quantify the performance of an individual employee in a meaningful and appropriate way. Instead, the desired activities and behavior consistent with the strategic goals are incorporated into the "critical elements" of each employee's position description and should be evaluated by the manager based on informed observation of that employee's job performance. Thus, the front-line employee's evaluation, although not quantified, is directly aligned with that of the management chain.

Operational measures were first implemented

The IRS began to implement the balanced measures system at the operational level in 1999, starting with three functions, Customer Service, Exam and Collection, which have most directly affected large numbers of taxpayers and employees. The operational measures for these functions could be implemented within the existing organizational structure and will remain valid in the new organizational structure. By the end of 1999, a large scale training effort had been completed to support the initial implementation of balanced measures. Approximately 913,000 hours of training were provided to 52,700 managers, employees and NTEU representatives.

Beginning in FY 2000, quantitative measures for the balanced measures for these functions will be regularly available to gauge progress. Also, beginning in FY 2000, the system of setting and measuring performance expectations for nearly all managers and executives has been redefined to be aligned with the balanced measurement system.

Progress Update

Much work remains to be done on the measurement process. The IRS completed balanced measures development for the Examination, Collection and three Customer Service product lines in calendar year (CY) 1998. In CY 1999, additional balanced measures were approved for: Tax Exempt and Government Entities, Large and Mid-Size Business, Appeals, Taxpayer Advocate Service, Research, Statistics of Income and additional Customer Service product lines. These measures are undergoing final design and implementation. Other measures teams underway in CY 1999 that are expected to have approved balanced measures in early CY 2000 include: Information Systems, Criminal Investigation, Counsel, Submission Processing and Agency Wide Shared Services.

Strategic measures for all of the operating units and for the IRS as a whole must be defined and implemented. In part, the strategic measures depend on assembling data on overall compliance, which will take longer to assemble.

Most importantly, the IRS must learn how to use balanced measures as a tool to achieve a high level of performance on all three of our strategic goals.

Implications for the way people work with each other and with taxpayers

The new balanced measurement system at the operational level is much more than a change in measurements. The measurements should never be used as an end in themselves, but as an indicator of organizational performance and a guide to improve performance. This requires an effort, every day, to "get behind the numbers" to understand what is really happening. It also implies profound changes in the way people work with each other within the organization and with taxpayers.

Concerning work with taxpayers, the changes implied are directly related to the restated mission. All actions must be looked at from the taxpayer's point of view and, in particular, must insist on observation of taxpayer's rights. This criterion is a strategic goal, a guiding principle of our modernization effort and a direct element in measuring and evaluating the performance of every manager and employee. Good quality work is the result of understanding the taxpayer's point of view and the law, not one or the other.

The way managers and employees work with each other also will change. Their goals are aligned, even though the specific roles may be different, and achievement of the goals should always be viewed as a team effort. The managers' role is to develop a meaningful understanding of the work of their direct reports and to assist them in achieving the highest possible performance in contributing to the strategic goals. At the front-line level, since performance of quality case work is central to achieving the goals, it is vital for managers to work with employees and their customers to develop a true understanding of the strengths and weaknesses of the work and to assist in making the quality as high as possible. At higher levels of management, it is also vital to understand the taxpayers' and employees' points of view by direct communication with them about issues of importance in their work and to help them resolve difficult issues and remove obstacles.

Development of the balanced measurement system and, even more so, learning the new ways of working will take years. By focusing our attention on what is important for achieving our strategic goals, we will be on the right path and will make progress step by step.